revenues are intended to support interstate costs, and not intrastate costs.

Cal/Neva and Consumer Action have recommended that the ULTS program be expanded to a two tiered income and benefit program so that persons with more modest incomes can afford telephone service. At the present time, there are approximately 3 million ULTS customers, with a fund size of approximately $360 million. Creating a new tier of ULTS eligible customers with a higher income ceiling, and lower benefits, will cause funding requirements to increase even more. Although many of the letters to the Commission, as well as speakers at the PPHs, favored the ULTS program, a number of other letters and speakers were against having such a program at all. Taking all of these concerns into consideration, we have decided against creating a two tiered ULTS program.

The problem that people with modest incomes, who do not qualify for ULTS, may not be the monthly cost of basic service, but rather the toll and long distance calls that they make. The idea of toll restricted calling, and making customers aware of bill installment plans, could go a long ways toward solving some of these problems. For example, toll restricted calling might be imposed by a carrier when a telephone bill with a number of toll and long distance calls is not paid. Instead of disconnecting the customer, toll restricted calling could be imposed so long as the local exchange portion of the bill is paid, and some amount is paid toward the previously incurred toll and long distance bills. Toll call restricted service would allow customers to still make local calls, and to receive all incoming calls. By keeping the customer's account open while scheduled payments are made, the customer avoids disconnection, and having to overcome deposit and other credit assurances before being reconnected. Carriers who serve residential customers are encouraged to develop such options so that people who may be faced with temporary monetary problems can retain local exchange basic service, or people who may want that option, can select that grade of service.

We now turn our attention to the issue of marketing expenses associated with the ULTS program. When the ULTS program was instituted by the Commission, it adopted GO 153 to govern the administration of the ULTS program. Consistent with PU Code § 879 and the related statutory history which preceded this section,[63] subdivision 5. of GO 153 provides that carriers may seek "reimbursement of expenses incurred and revenues lost as a result of providing ULTS." Included among these reimbursable expenses are "Commercial/Marketing" expenses.

We are persuaded by the argument of Consumer Action and others, that the ULTS program should not subsidize the marketing efforts of each carrier who offers basic service to low income customers. We must remember that the group of potential customers who qualify under ULTS is a finite group. Every carrier who plans to offer residential service will be targeting the same group of customers. It makes no economic sense to have multiple marketing campaigns conducted by each carrier who is trying to sign up the same customers, especially when the marketing expense of each carrier is subsidized by the ULTS program.

In addition, multiple ULTS marketing efforts tend to indirectly subsidize the carrier's overall marketing strategy by encouraging the potential customer, whether or not they qualify as a ULTS customer, to sign up with a particular carrier. Such advertising also promotes the name of a particular carrier at the

63 When the Universal Telephone Service Fund was first enacted, former Revenue and Taxation Code sections 44181, 44182, and 44184 indicated that the telephone corporations were to be reimbursed for providing universal telephone service as contemplated by this program. (See Stats. 1983, Ch. 1143, sec. 3; Stats. 1987, Ch. 163.)

expense of ratepayers. It also indirectly subsidizes the marketing of other services, such as lucrative toll and enhanced services, that the carrier can sell to consumers once they have become customers. Having individual carriers continue to market the ULTS program may lead to abuses of a subsidized marketing system.

DRA makes some compelling arguments as to why the LECs and CLCs should market the ULTS program. In particular, the carriers are the most knowledgeable about the market and ways in which they can reach those markets. However, we do not believe that DRA's suggestion that each carrier be entitled to a portion of a fixed statewide fee for marketing is the solution. Such a scenario could lead to a situation where a carrier, under the pretense of marketing ULTS, claims reimbursement, but uses the money for non-ULTS related activities. Also, it does not eliminate the problem of ratepayers subsidizing carriers to entice those who do not have telephone service, to become that particular carrier's customer. Furthermore, apportionment of the monies available for marketing could disadvantage certain carriers if it was distributed based on the carrier's size or the number of customers the carrier has.

We believe that in a competitive environment, a single entity should be responsible for the marketing of ULTS services. The advantage to this approach is that no particular carrier is directly benefitted by ULTS marketing activity. Instead, potential customers are free to choose which carrier they want to call. A single entity also limits the size of the ULTS marketing expenses. Instead of ratepayers having to subsidize multiple ad campaigns, there could be a single budget for marketing expenses. A third advantage is that the entity can specifically target the ULTS marketing to customer groups which have lower subscribership rates.

The most logical entity to do the marketing is the Administrative Committee of the ULTS Trust, or a subcommittee of the ULTS Trust. Another possibility is for the Commission to organize a ULTS marketing working group. A third option is to solicit interest from consumer groups.

The drawback to the Administrative Committee idea is that its role as the administrator would be expanded to include developing marketing strategies, and supervising various marketing campaigns. In the decision which ordered the ULTS Trust to be set up, and an Administrative Committee established, the Commission stated that "the administrative committee is financial in nature and should not be construed to include policy decisions." (25 CPUC2d 556, 560.) The Commission also stated the following:

> "Administrative committee members should not be compensated for serving on the committee. Budgetary approved funds should be reimbursable from the ULTS Trust only when actually incurred." (Id., at p. 561.)

Having the Administrative Committee, or a subcommittee of that group, develop marketing strategies and supervise marketing efforts, seems beyond the scope of the committee's intended duties.

Selecting a consumer group or groups to head up the ULTS marketing has drawbacks as well. First, the consumer group might lack knowledge of the ULTS program. This could lead to problems in starting up a marketing campaign, and targeting consumers who are likely to qualify for the ULTS program. Another problem is that the selection of the group or groups to handle the ULTS marketing could cause problems as to which group or groups are the most qualified.

We favor the establishment of a ULTS Marketing Working Group. The purpose of the ULTS Marketing Working Group would be to assist the Commission in developing a budget for statewide marketing strategies for the ULTS program, to develop competitively neutral marketing strategies, and to oversee the development and implementation of ULTS marketing campaigns.

The working group should consist of twelve members: three representatives from the large and medium size LECs; three representatives from the IECs or the CLCs; three representatives from consumer groups or public interest groups; one representative from a small LEC; one representative from the wireless carriers; and the head of the Consumer Services Division or his/her designee. Preferably, the representatives of the carriers should have marketing and sales backgrounds. The advantage of assembling such a working group is that all the members have an interest in making sure that marketing of ULTS services reach as wide an audience as possible.

The working group would recruit qualified advertising agencies to develop print, billboard, and radio advertising for the ULTS program. The budget for the advertising campaigns and related working group expenses would be paid out of the ULTS program. These expenses should not exceed the annual total average ULTS marketing expenses that were reimbursed over the last three years. The ad campaigns should not result in an advantage or disadvantage for any carrier. The working group should develop competitively neutral ways in which consumers can be informed about which carriers offer ULTS service. Compensation for participation by working group members should be nominal, especially the LECs, IECs and CLCs. Implementation of ad campaigns should take place as soon as possible.

We shall order the CSD to convene a workshop as soon as practicable to determine who should make up the working group, to develop a budget, to develop marketing strategies, recruit advertising agencies, and to lay the groundwork for future meetings and coordination of the marketing efforts. One year after the formation of this working group, an annual report shall be prepared by the Commission staff assigned to this working group, in conjunction with the members of the working group. The annual report should detail the working group's activities during the past year, the increase or decrease in ULTS customers, and its expectations and objectives during the coming year. The annual report shall be submitted to the Commission, who will review the effectiveness of the working group to determine if alternative marketing solutions are needed.

Effective upon the date this order is signed, ULTS advertising, outreach, and related marketing expenses by individual carriers will no longer be reimbursed by the ULTS fund. Should the incumbent LECs decide to continue using existing advertising campaigns to market ULTS, the production expenses associated with producing those campaigns shall be reimbursed to the ULTS program.

The Commission also needs to examine whether some of the other expenses that are currently reimbursed by the ULTS program should continue to be reimbursed in a competitive environment. As competition emerges, the expenses that are reimbursed to the carriers should perhaps reflect this competitive environment and its associated efficiencies. Any contemplated adjustments need to be consistent with the provisions contained in the Moore Act. As we noted in D.95-07-050 at page 68, this is an issue the Commission, as well as the Legislature, should consider reviewing in the future.

The next issue we address is whether an income verification process, or the existing self certification process, should be used to determine the eligibility of ULTS customers. Central to this issue is whether by adopting an income verification process, California can avail itself of approximately $50 million in additional federal funds to support universal service.

This is not the first time this issue has been raised. In 25 CPUC2d 556, at pages 561 to 562, the Commission ordered that a workshop be held to determine whether an acceptable verification program could be developed to meet the FCC's requirement so that federal monies to support universal service could be released. The same issue was again raised in comments responding to a rulemaking we issued regarding whether the income-based criteria for the ULTS program, and the Low Income Ratepayer Assistance Program, now known as the California Alternate Rates for Energy program, should be changed. (See R.94-12-001.)[64]

The potential availability of $50 million dollars is too large of a number to ignore. We are not convinced by the arguments that the cost of an income verification process outweighs its benefits. It is highly unlikely that it would cost in the neighborhood of $50 million to do income verification checks of applicants for ULTS service. Although an income verification method might deter some applicants from applying for the ULTS program, a carefully constructed income verification process and an appropriate marketing campaign could alleviate some of these problems.

Before we consider whether an income type verification process should be used, we need to ensure that the federal monies will be available if such a switch is made. We also need to determine what type of verification process is required, whether our current self certification process can be modified to meet the FCC requirements, or whether a new verification process is needed. In addition, in light of the Telco Act, we need to determine if these monies will still be available in the future. All of these questions need to be answered before we move forward with modifying our current ULTS application procedures. We will direct the Telecommunications Division staff and the Legal Division to make appropriate inquiries at the FCC, and to conduct the necessary research, to determine the answers to these questions. Upon receiving the staff's evaluation and analysis of these issues, we will inform parties to this proceeding as to the next steps the Commission intends to take.

DCA has suggested that the potential federal monies be used to benefit schools and libraries. Although this is a

64 No decision in R.94-12-001 has been issued yet.

noteworthy proposal, these monies are tied to the promotion of Lifeline service. Any receipt of such monies should go toward the reduction of ULTS program costs, rather than to benefit schools and libraries.

Consumer Action recommends that the once a year discounted installation charge under the ULTS program should be changed. The ULTS installation charge was thoroughly examined in D.94-09-065 at pp 56 to 58. We decline to adopt Consumer Action's recommendation at this time.

The last issue to address is who should continue to administer the ULTS program. In D.95-07-050 at page 69, we requested comment on who should act as the fund administrator for the ULTS program. The general consensus was that the Administrative Committee should continue to oversee the ULTS program. As there are no major revisions to the ULTS program, we will leave the day to day administration of the program to the Administrative Committee. We would just note that as more competitors begin to serve ULTS customers, the auditing of carrier accounts may need to be increased. If the Administrative Committee, or any other entity, detects problems in the way in which the ULTS program is operating in this new environment of competition, they should bring these problems to the attention of the Commission.

The Administrative Committee is currently made up of five members, two of whom are members from public interest groups. The other three members are drawn from the LECs, the IECs, and the small LECs. In addition, there is one Commission staff person who acts as the liaison.[65] There does not appear to be a compelling need to expand the size of the Administrative Committee at this time. If parties believe that the size of the committee should be expanded, they should file a petition to modify this decision.

The applicable rules pertaining to the responsibilities of carriers who provide ULTS are set forth in Rule 5 of Appendix B.

X. Miscellaneous Issues

We have considered the various wording changes suggested by the various parties in their comments to D.95-07-050, and have incorporated some of their suggestions in the final rules. We believe that the changes we have adopted have improved the focus and clarity of the rules, as well as our intent.

There are two other issues which have been raised in this proceeding, but which are not addressed in this decision. The first issue concerns itself with AB 3643's directive that the proceeding address the issue regarding "franchise obligations." (Stats. 1994, Ch. 278, Sec. 2.(a)(5).)

In D.95-07-050 at page 75, the Commission stated that "We do not believe that the LECs should be granted any additional recovery for stranded investments." In the September 1, 1995, comments regarding the proposed rules, that statement generated numerous comments regarding the stranded investment/franchise impacts issue. Our discussion of that issue also generated the filing by the LECs of several applications for rehearing of D.95-07-050. In the decision denying those applications for

65 The staff liaison shall be the head of the Telecommunications Division or his/her designee. The staff shall provide quarterly updates to the full Commission at its meetings regarding the Administrative Committee and the ULTS program.

rehearing of D.95-07-050, the Commission concluded that the issue "addressing the impact of local competition upon the ability of an LEC to recover the cost of investment in rates, and consequent effect upon LEC earnings" should be heard in the evidentiary hearings that took place in January and February of 1996 in the Local Competition rulemaking and investigation, R.95-04-043/ I.95-04-044. (D.95-12-062, p. 2.)

The franchise obligations issue was addressed in the franchise impacts hearing of the Local Competition proceeding. A proposed decision has been issued in that proceeding, but no Commission action has occurred. Since that issue has been addressed already, this decision does not address any of the stranded investment/franchise obligations issues that have been raised.

The other issue that the incumbent LECs believe needs to be addressed is the rebalancing of all rates. As competition increases, the incumbent LECs believe that they will be disadvantaged if they cannot lower their prices for services that are subject to competition. In addition, the implicit subsidies contained in the rates of certain services that are priced above the LECs' costs, in order to support the policies and goals of universal service, will not be sustainable in a competitive environment.

The assigned ALJ appropriately excluded testimony regarding network wide rate rebalancing. His ruling was consistent with our pronouncement in D.95-12-021 at page 3 that "the issues surrounding rate deaveraging, the pricing of basic services, and revenue rebalancing should be addressed in the context of the overall incentive-based regulatory framework instead of in this proceeding."

In order for competition to benefit all customers in California, these rate and revenue rebalancing issues need to be addressed sooner, rather than later. Due to the other open telecommunications proceedings, the rate and revenue rebalancing issues were given a lower priority. As we approach 1997, and the other major telecommunications proceedings begin to wind down, these issues need to be given a higher priority. It is our intent to examine these issues in the months to come.

Findings of Fact

1. R.95-01-020 and I.95-01-021 were opened to develop rules to further the goals of universal service in a competitive telecommunications environment.

2. The enactment of AB 3643 provided some guidance as to the type of universal service issues the Commission should address.

3. D.95-07-050 described and set forth a proposed set of rules pertaining to universal service responsibilities in a competitive environment.

4. Parties were given an opportunity to file written comments on the proposed universal service rules.

5. The Commission, in conjunction with the State and Consumer Services Agency, held thirteen public participation hearings throughout the state concerning the proposed universal service rules.

6. D.95-12-021 outlined the framework for structuring the design and development of the proxy cost model.

7. The parties failed to reach any agreement regarding the proxy cost model at the workshops that were held.

8. Thirteen days of evidentiary hearings were held in late April and May of 1996.

9. The matter was submitted on June 10, 1996.

10. On February 8, 1996, the Telco Act was signed into law.

11. GTEC objected to the admission of Exhibit 117 into evidence.

12. On June 6, 1996, AT&T/MCI filed a motion to strike from Pacific's opening brief the references to an article by Dr. Alfred Kahn, and the references at pages 23, 42, and 44 about

conversations that allegedly took place between the employees of Pacific, and employees of US West.

13. Universal service has developed over the years to mean that: (1) a certain minimum level of telecommunications services must be made available to virtually everywhere in the state; and (2) the rate for such services remain affordable.

14. As the marketplace for local telephone exchange service moves from a monopoly provider to multiple providers, the universal service program needs to be readjusted to meet the challenges of increasing competition.

15. The implicit subsidies of averaged rates, and service priced above cost to support services priced below cost, will not be sustainable in a competitive market.

16. In order to effectuate a policy of universal service throughout the state, the Commission needs to develop a list of the service elements which make up residential basic service.

17. Free telephone directories minimize the number of calls made to directory assistance, and promotes the wide distribution of yellow pages advertising.

18. At the PPHs, many consumers expressed satisfaction with having a choice of flat or measured rate service.

19. The flat and measured rate options preserve customer choice, and provides consumers with a method in which to comparison shop among carriers.

20. The adopted basic service definition enables anyone who has the computer hardware and software, to connect to an Internet provider.

21. Broadening the definition of basic service to include broadband services will impose more costs on the incumbent LEC, and the new carriers who may enter the local exchange market.

22. The service elements that are included in the definition of basic service are contained in Rule 4.B.

23. AB 3643 stated that one of the objectives of this proceeding is to develop a periodic review process to revise the definition of universal service to reflect new technologies and markets.

24. When the Commission solicited comment on the proposals to promote greater access to new technologies, we expressed the reservation that the activities contemplated by the proposals involved other industries besides telecommunications, and that the funding for such activities should not come solely from telecommunications carriers and their customers.

25. Many of the advanced services being offered today require hardware, software, and other components, in addition to the information that is provided to the end user.

26. Universal design issues and recommendations are more appropriately addressed at the federal level than with this Commission.

27. D.94-09-065 adopted the goal that 95% of the households in California have telephone service, and that customer outreach and educational programs to achieve a 95% subscribership rate for telephone service among nonwhite and non-English speaking households must significantly improve.

28. D.94-09-065 required GTEC and Pacific to set targets, and to map out their marketing strategies to improve their universal service levels.

29. The Commission proposed in D.95-07-050 that the same monitoring requirements that apply to GTEC and Pacific, should also apply to the other providers of local exchange service.

30. Public Advocates made a series of identical recommendations in both the local competition proceeding and in this proceeding regarding the 95% goal, bilingual services, and redlining.

31. Subscribership rates for telephone service should be measured by income, ethnicity, and geography.

32. It may be appropriate to eliminate ethnicity as a measurement criterion at some point because the income and geography criteria provide much of the information that is needed to determine where telephone subscribership rates are low.

33. In D.95-07-050, we suggested that an explicit prohibition against redlining be adopted, and invited comment on whether such language would be effective.

34. No additional pronouncements are needed about redlining because in D.95-12-056, the Commission adopted a rule in the local competition proceeding that states that redlining is prohibited, and that the Commission shall take strong action against any carrier engaged in redlining.

35. Public Advocates' recommendation that each carrier actively market its services to certain customer groups, and that they furnish their business plans with details about how the 95% subcribership rate can be achieved, are based in part on what the Commission ordered of GTEC and Pacific in D.93-11-011 and D.94-09-065.

36. The reporting requirements imposed on GTEC and Pacific in D.93-11-011 and D.94-09-065 concerned telephone subcribership rates, and awareness and ways of encouraging participation in the ULTS program.

37. In a competitive market, all carriers will need to actively market their available services to all customer segments because the total number of customers in California is limited.

38. In D.95-07-054 the Commission adopted the rule that a CLC making a sale in a language other than English is required to confirm with that customer in writing, in the same language in which the sale was made, the service(s) ordered.

39. In D.95-12-056, the Commission expanded its bilingual information and outreach rules to require the CLCs to inform each new customer, in writing and in the language in which the sale was made, information on the availability, terms, and rates regarding

the ULTS program and basic service. In addition, the CLC is to provide bills and notices, as well as access to bilingual customer service representatives, in the language in which the prior sales were made.

40. In D.96-08- ----, the Commission ordered that a workshop be held to determine what operational and economic constraints carriers might face in complying with the multilingual billing and notice requirements that are contained in the local exchange competition rules.

41. PU Code § 786 requires every telephone corporation to issue to each of its residential customers on an annual basis, a listing of the residential telephone services that it provides, and the rates or charges for those services.

42. Given this state's diversity, there will be more than one non-English speaking customer per carrier, which will necessitate that bilingual customer service representatives be on hand to serve the non-English speaking customers upon demand.

43. The offering of bilingual services will be a natural result of competition because all of the carriers will have to compete to attract the business of a finite group of customers.

44. With the exception of requiring carriers to have a toll free number to answer questions regarding the customer's calling area, and whether a call is a toll or long distance call, we should adopt the matrix proposed by UCAN in conjunction with TURN.

45. CSD should conduct a workshop to study ways in which new pricing packages can be compared and included in a consumer information matrix.

46. The Commission should adopt UCAN's suggestion that an annual report summarizing the complaint history for each certificated carrier be compiled.

47. The Commission needs to take proactive steps to inform the public about the regulatory changes taking place in the marketplace.

48. Two of the principles in AB 3643 expressed the intent that all customer segments, including certain kinds of institutions, benefit from the deployment of advanced telecommunications technology.

49. The Telco Act provides that public or nonprofit health care providers serving rural areas, as well as elementary and secondary schools and libraries, should receive discounted rates.

50. The Telco Act provides that a state may adopt regulations that are not inconsistent with the FCC's rules, and that the state can provide for additional definitions and standards that preserve and advance universal service.

51. A program of discounts for qualifying schools and libraries should be adopted.

52. Qualifying schools and libraries shall be entitled to a discount of 25% off the tariffed price of the service for other businesses for all 1MB, swtiched 56, ISDN, and T-1 services, or their functional equivalents; and a discount of 20% off the tariffed price of the service for DS-3 service, or its functional equivalent.

53. Carriers who serve qualifying schools and libraries with these discounted services will receive a subsidy amount that represents the difference between the tariffed rate for businesses for such services, and the tariffed discount rate for schools and libraries.

54. The issue of discounts for rural health care providers should be deferred until the Joint Board and the FCC have had an opportunity to address this issue.

55. By providing discounts to qualifying CBOs, we can position communities to take advantage of the benefits of the information age, and promote access to the technology and to the information.

56. Qualifying CBOs shall be entitled to a discount of 25% off the normal tariffed business price for switched 56, ISDN, and

T-1 services, or their functional equivalents, in accordance with Rule 8.C.(3) of Appendix B.

57. Carriers who serve qualifying CBOs with these discounted services will receive a subsidy amount that represents the difference between the tariffed rate for businesses for such services, and the tariffed discount rate for CBOs.

58. In order to make the information superhighway accessible to all, and to ensure the success of the discount program which we adopt today, the telecommunications industry, computer and software manufacturers, and the information providers, must all take the lead and provide schools, libraries, and CBOs, with the necessary equipment and services at no cost or substantially reduced prices.

59. D.95-07-050 noted that in an era of competition, the incumbent LECs can no longer rely on internal subsidies between high cost and low cost exchanges, the price differences between services, to help fund the cost of providing universal service in high cost areas.

60. In the February 21, 1996 ALJ ruling, parties were directed to include in their prepared testimony the additional costs associated with subsidizing business customers in high cost areas.

61. No one presented any estimates of the cost of providing businesses in high cost areas with telephone service.

62. A business telephone is just another cost of doing business, and it is unlikely that the cost of such service would be the deciding factor in whether a company should go into business or not.

63. D.95-07-050 and D.95-12-021 proposed that the redesign of universal service should apply statewide.

64. California currently has seventeen smaller LECs, three mid-size LECs, and two large LECs.

65. The Telco Act specifically exempts rural telephone companies from resale, number portability, dialing parity, and interconnection obligations.

66. D.89-10-031 noted that the smaller LECs will face much lower levels of competition than GTEC and Pacific.

67. Local exchange competition is likely to take a longer time to reach the service territories of the smaller LECs.

68. The areas in which GTEC, Pacific, CTCC, Contel, and Roseville operate in, are in, or are located in close proximity to, urban areas.

69. Competition is likely to occur first in urban areas, and in areas located in close proximity to urban areas.

70. The smaller LECs are regulated under rate of return regulation, while the five large and mid-size LECs are, or have requested to be, regulated under an incentive based ratemaking framework.

71. The federal funding mechanisms for universal service are currently being studied by the Joint Board.

72. The smaller LECs currently receive, most if not all, of the universal service funding needs through the federal funding mechanisms.

73. Once the FCC decides what federal universal service funding mechanisms should be in place, we should revisit the smaller LECs and the CHCF-A.

74. If a bona fide request to enter a smaller LEC's service territory is received, the Commission will make a determination in accordance with § 251(f) of the Telco Act.

75. In shaping the development of the proxy cost models for use in this proceeding, we have attempted to achieve some consistency with the TSLRIC studies being developed in the OANAD proceeding.

76. In D.95-12-016, the Commission adopted a set of costing principles to be used in the OANAD proceeding.

77. D.95-07-050 proposed that the costs for all the GSAs be developed by way of proxy cost studies, and in D.95-12-021, we left open the possibility that there might be competing proxy cost models.

78. No agreement was reached during the workshops as to which proxy cost model should be used.

79. For the evidentiary hearings, Pacific sponsored the statewide CPM, and AT&T and MCI sponsored the HPM.

80. The HPM is based on extensions made to the BCM.

81. In deciding which proxy model to adopt, and what estimate of universal service the Commission should adopt, we must be vigilant that the fund is neither oversized or undersized.

82. If the fund is oversized, the subsidy provided to carriers will exceed the actual cost of subsidizing residential basic service in high cost areas, and allow the recipients of such funds to cross subsidize other services, and to engage in other anticompetitive behavior.

83. If the fund is undersized, the ability of carriers to serve high cost areas may be impaired.

84. The purpose of choosing the CBG as the GSA for determining the subsidy is to reduce the averaging that would occur if a larger GSA was used.

85. The Commission first proposed the use of CBGs as the basis for determining the costs to serve an area in D.95-07-050, which was subsequently reaffirmed in D.95-12-021.

86. The CPM can generate cost data for the entire state on a CBG basis, while the HPM generates cost data based on density zones.

87. At the close of hearings, the joint sponsors of the BCM at the FCC were attempting to correct some of the problems with the BCM that others had identified.

88. The BCM erroneously assumes that the population in CBGs is evenly distributed throughout the CBG.

89. The CPM 's grid cell design is able to identify the location of population in a more precise manner.

90. The BCM erroneously assumes that structure costs vary in direct proportion to the costs of those facilities.

91. The HPM attempts to correct the structure cost problem by multiplying the installation factor for facilities in the two lowest density areas.

92. The CPM separately identifies costs for facilities placement from their cable costs, and separating per foot and per pair cable costs.

93. The BCM takes irregularly shaped CBGs and assumes that they are square, whereas the CPM relies on a regularly shaped grid.

94. The CPM assigns central offices according to the density of the wire center, rather than according to the number of lines served by the central office, whereas the HPM uses actual central office line counts to size switches.

95. The inputs to the CPM are gathered from a series of tables, which requires one to assume that the underlying data used in the tables is consistent.

96. The BCM allows for the sharing of feeder cable between CBGs on the same feeder route belonging to the same wire center, whereas the CPM does not contain an explicit method for accounting for the sharing of feeder cable by households served from the same wire center.

97. Certain critical assumptions and inputs to the BCM cannot be changed by the end user, whereas the CPM assumptions can be more readily changed.

98. Both the HPM and the CPM use a scorched node approach whereby the current topology of the central offices is assumed, and both models rely on historical LEC data to predict forward looking maintenance and repair costs.

99. Both models can estimate the cost of providing voice grade residential service, but it is unclear whether the HPM fully accounts for directory assistance costs, and billing inquiry costs.

100. Regarding whether the inputs and assumptions can be verified, the HPM relies on: (1) assumptions in the BCM which AT&T/MCI cannot alter or explain; (2) unnamed experts; and (3) selected portions of cost studies from other jurisdictions.

101. Regarding whether the inputs and assumptions can be verified, the CPM depends largely on Pacific's own data, but Pacific's reliance on some of its other models complicates the verification of some of this data.

102. With Pacific's original inputs and assumptions to the CPM, the CPM estimates an annual statewide subsidy of $1.7 billion, of which it is estimated that $1.3 billion would go to Pacific initially.

103. The statewide CPM as sponsored by Pacific, includes the cost of second lines in its subsidy calculation.

104. The subscribership rate for second lines is approximately 17%.

105. Subsidizing only one line per household keeps telephone rates affordable for those who live in high cost areas, as well as for everyone who is obligated to support the fund.

106. With two or more sources of connection, it is possible that a household in a high cost area may attempt to subscribe to more than one subsidized primary line.

107. The CPM assumes one buried drop per residence, whereas Pacific's standard engineering practice is to use two copper pairs in drops to each residential subscriber.

108. DRA's drop cost adjustment shares the costs of placing the drop between two lines, rather than being borne by a single line.

109. The CPM accounts for cable, conduit, pole, and pair gain costs in a table called A & B costs.

110. AT&T/MCI contend that the PLAN COSTDEC data represents average field conditions, rather than lower cost normal field conditions, and that when the modifying factors are applied to average field conditions, the CPM overstates the effect of terrain, and other sources of difficulty.

111. When Pacific revised its A & B cost values, the copper cable cost for buried 26 gauge copper cable was reduced from $1.60 to $0.17 per foot.

112. AT&T/MCI witness Selwyn contends that the revised A & B cost for conduit underestimates conduit investment for distances less than 1973 feet, and overestimates conduit investment that is longer than 1973 feet.

113. Since the CPM inputs rely on extensive tables of unit cost factors which have been developed outside the CPM, GTEC proposes that the CPM utilize a spreadsheet of some of the basic cost elements derived from a GTEC contract.

114. In addition to the unit costs, GTEC asserts that the CPM's assumptions such as the ratio of feeder to distribution, and the mix of cable by density zone are based on averages or practices specific to Pacific.

115. The adjustment to the A & B copper cable cost is supported by Pacific's revised cost of copper cable to $0.17.

116. The conduit costs in the CPM appear overstated.

117. The CPM assumes that if the feeder length exceeds 9000 feet, fiber is used, and if the feeder length is shorter than 9000 feet, copper is used.

118. Pacific's fiber feeder cut-off point has been reduced from 12,000 feet to 9000 feet.

119. A 9000 feet cut-off does not make sense in low density, rural zones, where demand and capacity requirements are smaller.

120. A cut-off of 9000 feet would shift the costs associated with higher bandwidth services onto the costs of providing basic service.

121. The fill factor measures how much plant is being used to provide service to customers, to determine the size of feeder cables and related facilities, and how those costs are spread over the feeder.

122. The CPM uses economic lives for depreciation.

One of the purposes of this proceeding is to model the cost of providing universal service, and not to model the cost of a state of the art network.

123. A network for providing universal service should be subject to less obsolescence than a network designed to accomodate a variety of discretionary and potentially competitive services.

124. Prior to INDETEC's modification of the CPM at the request of GTEC, the CPM classified wire centers into seven zones on the basis of the average population density of the grid squares associated with each wire center.

125. The CPM's use of density zones determine the cost of the central office switch, as well as the cost of the feeder.

126. GTEC recommends that the wire centers in the CPM be assigned to zones based on the number of business and residence lines in each wire center, so that the model can calculate the feeder size and the conduit cost of each central office consistent with the size of each office.

127. The CPM contains an outside plant factor adjustment which is set at greater than one when outside plant is placed in highly dense urban areas.

128. GTEC believes that the CPM's adjustment factor for outside plant is not supported by price quotes, and that the CPM already has an adjustment for such factors.

129. The CPM's use of historically based cost estimates represent average costs, which includes in the average the costs for relatively densely populated areas.

130. Restrictions on construction appear to be more appropriate for business lines rather than residential lines.

131. Based upon an announcement made by Pacific in January 1993, AT&T/MCI witness Selwyn believes that switching costs in the CPM are overstated.

132. The CPM accounts for shared and common costs, which Pacific states are attributable to universal service.

133. Pacific initially estimated the shared and common costs at $5.00 per line, and then subsequently increased the estimate to $6.70 per line.

134. In D.94-09-065, the Commission agreed with the argument of GTEC and Pacific that the loop plant was built in response to the end user's subscription to basic telephone service, and therefore much of the loop plant should be characterized as NTS and assigned to basic exchange services.

135. The allocation of shared and common costs may be somewhat arbitrary.

136. Some of the shared and common costs are attributable to residential basic service.

137. The CPM includes expenses for the rearrangement of plant, and for the non-recurring burden.

138. PU Code § 2883 requires every existing and newly installed residential connection to have continuing access to 911, unless it would preclude providing service to residential subscribers.

139. As a result of PU Code § 2883, a large percentage of existing lines are going to remain in place, and rearrangement expense and the non-recurring burden expense are likely to be kept to a minimum.

140. DRA noted in its opening testimony that a comparison of the CPM's estimates of GTEC's costs in OANAD to the costs shown in the CPM showed a significant difference.

141. CACD staff determined that the CPM cost estimate for directory assistance was overstated after comparing Pacific's

monthly volume of directory assistance calls to GTEC's estimated directory assistance costs in OANAD.

142. The benchmark serves as the guide for determining which GSAs are high cost or low cost, and serves to size the CHCF-B by limiting subsidy support only to those GSAs in which the proxy costs of serving that area exceed the benchmark.

143. D.95-07-050 proposed that a GSA should be considered high cost if the proxy cost of serving that GSA was above the revenues generated by the LEC offering basic service in that particular GSA.

144. A benchmark based on the national average loop cost should not be used because the national average is not specific to California conditions.

145. The CPM, as adjusted by today's decision, results in a statewide average cost of $18.39.

146. The danger with setting the benchmark at too high of a level is that it may cause the current rates which are below the benchmark, to rise to the benchmark level.

147. A higher benchmark price reduces the number of areas and households that are eligible for a subsidy, and is inconsistent with our subscribership goal of 95%.

148. The adjusted CPM run reveals that using our adopted benchmark, approximately 3.73 million lines out of approximately 12.7 million total lines, will be subsidized by the CHCF-B.

149. Due to the lengthy printout that would be required for a run result showing the adjusted CPM estimate of cost for each CBG, and whether that CBG is high cost or low cost, such a table has not been included as part of this decision.

150. In D.95-07-050 and D.95-12-021, the Commission stated that other sources of revenue might need to be considered as offsets to the results of the proxy cost model.

151. No offset to the CHCF-B is needed for monies received from the CHCF-A.